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Contact(s)	Katherine Cancro	kcancro@ifrs.org	+44-207-246-6928

Project	**Mandatory effective date of IFRS 9**
Topic	**Mandatory effective date of IFRS 9**

Purpose of this paper

1. IFRS 9 is required to be applied for annual periods beginning on or after 1 January 2013. Although not all phases of the project to replace IAS 39 have been completed, entities that have not yet applied IFRS 9 will be required to apply it from 1 January 2013, including presenting comparative statements for the annual period beginning 1 January 2012. Due to the need for entities to prepare comparative statements beginning at 1 January 2012, the staff believes that the amendments, if any, related to the mandatory effective date and the requirement to issue comparative statements should be issued expeditiously.

2. This paper presents a summary of the feedback received related only to the mandatory effective date of IFRS 9 received from respondents to the *Request for Views on Effective Dates and Transition Methods* (the 'Request for Views') and the the exposure draft *Mandatory Effective Date of IFRS 9* (the 'ED'). **Agenda Paper 1B** addresses the requirement to restate comparative statements for entities that initially apply IFRS 9 for reporting periods beginning on or after 1 January 2012. **Agenda Paper 1** introduces the project history, overall items of note for both this paper and Agenda Paper 1B, and summary statistics of the comment letters received on the ED. Feedback received on the ED that does not relate specifically to the questions asked in that document will be addressed at future meetings.

3. This paper contains two questions to the Board.

Feedback summary

4. Many respondents to the Request for Views commented that IFRS 9 should be mandatory no earlier than for annual periods beginning on or after 1 January 2015 to allow for some or all of the major Memorandum of Understanding (MoU) projects to be implemented concurrently, and/or that there should be at least three years between the date the last chapter of the IFRS is issued and the first comparative period presented. Another common theme of comments from preparers and auditors was that a single effective date for all phases of the project to replace IAS 39 (and in the view of some, the insurance contracts, revenue recognition, and/or leases projects) would be the most cost-effective option. Regulators emphasised the significant lead time that would be needed to evaluate the impact of the changes to the accounting for financial instruments on prudential and reporting requirements, as well as supervisory practices.

5. The feedback on the ED was broadly consistent with that of the Request for Views. All of the respondents to the ED supported the deferral of the mandatory effective date of IFRS 9; however, many respondents provided qualifications or suggestions as to what they thought the mandatory effective date should be related to the amount of lead time necessary and the alignment between phases of the project to replace IAS 39 and with other projects. This feedback is summarised as follows:

    (a) Many respondents emphasised that entities should be able to transition concurrently to all phases of the project to replace IAS 39. Although many did not qualify their comments further, some believed that:

        (i) The ability to transition concurrently to all project phases could, and potentially should, mean that a further delay should be considered if the other phases are delayed,

        (ii) The other phases should be completed expeditiously to prevent further delay (see paragraph 6(a) below), and

        (iii) A mandatory effective date should only be set once all of the project phases are complete.

    (b) Many respondents believed that the mandatory effective date of IFRS 9 should consider that of the insurance contracts project. Of these respondents, some believed that 'while it would be desirable for the effective date of IFRS 9 to be aligned with the effective date of IFRS 4, they do not believe that the effective date of IFRS 9 should be held back by IFRS 4 if that project is delayed' *[CL #11]*. However, others noted their view that the alignment between the mandatory effective dates of IFRS 9 and the insurance contracts project is 'vitally important' *[CL #34]*.

(c) Some respondents stated their view that the mandatory effective date of IFRS 9 should be aligned with that of other major projects (ie a 'single date' approach).

(d) Respondents' views varied on how much lead time there should be between the issue of the final phase of the project to replace IAS 39 and its mandatory effective date—views ranged from one year to four years, with most favouring a three-year lead time. Some respondents noted their support for a mandatory effective date of annual periods beginning on or after 1 January 2016. If all of the project phases were completed by the end of 2012, they noted that this would provide them with three years until the mandatory date of initial application of IFRS 9 which they felt was an appropriate period.

6. Respondents also raised other issues that they thought the Board should consider outside of a practical application perspective, summarised as follows:

(a) 'Delaying the effective date of the final standard once announced worldwide is not necessarily favourable because that change might significantly reduce the predictability of market participants regarding the use of the standard. In addition, it would prolong the term of early application and lack of comparability between entities that apply the standard and those that do not…Accordingly, in order not to exacerbate these problems, we urge the IASB to make steady progress in the Impairment phase of the Financial Instruments Project and the Insurance Project so that the final standards of those projects will be mandatorily applied on the proposed effective date.' *[CL #70]*

(b) Some respondents noted the EU's intention that it will endorse IFRS 9 only once all phases of the project to replace IAS 39 are complete. These respondents were concerned that EU endorsement be considered. Some of these respondents, who are also SEC filers, noted that they could potentially be required to prepare two sets of financial statements if EU endorsement were not considered.

(c) One respondent noted that while it may seem attractive to set a mandatory effective date of IFRS 9 as a number of years after the completion of its final phase (see also paragraph 5(a)(iii) of this paper) rather than setting a definite date, they believed that the Board should set a mandatory effective date and review it if there were further project delays. Although noting that entities in some jurisdictions may be precluded from applying IFRS 9 early, entities in other jurisdications may be able to, and want to, apply IFRS 9 early and should not be prevented from doing so. This respondent also believed that a set mandatory effective date would be more conducive to project planning than not having a set date.

Staff analysis and recommendation

Should the mandatory effective date of IFRS 9 be deferred?

7. As stated in the Basis for Conclusions of IFRS 9[1], the Board intended that the mandatory application of all phases of the project to replace IAS 39 occur concurrently. The Board also stated that it may delay the effective date of the project to replace IAS 39 to better align with the effective date of the proposed insurance contracts guidance.

8. Given that the impairment and hedging phases of the project to replace IAS 39 are not yet complete, nor is the insurance project, and feedback has not identified disagreement with deferral, the staff recommends that the mandatory effective date of IFRS 9 should be deferred.

[1] paragraph BC7.3 and BC7.4

What should be the mandatory effective date of IFRS 9?

9. In its deliberations leading to the issue of the mandatory effective date ED, the Board considered feedback since the issue of IFRS 9, primarily received through the Request for Views. This feedback is summarised in paragraph 4 of this paper. Additional feedback to the mandatory effective date ED is summarised in paragraphs 5 and 6. The staff notes that whereas comments to the Request for Views showed support for a mandatory effective date of no earlier than 1 January 2015, responses to the ED emphasised an amount of lead time that they thought would be necessary after the final phase of the project to replace IAS 39 is complete in order for them to be able to implement all project phases concurrently—that is, generally three years.

10. The staff believes that:

    (a) there are compelling reasons for all project phases to be implemented at the same time and currently it still makes sense to continue to pursue an approach of aligning mandatory effective dates for this project,

    (b) however, it may be too early in the project for the Board to make a decision on the amount of lead time necessary to implement all phases of the project as the entire project to replace IAS 39 is not yet complete.

11. The staff believes that based on the feedback received and the points above, it is reasonable for the classification and measurement requirements of IFRS 9 to be effective for annual periods beginning on or after 1 January 2015. The staff notes that if comparative statements were not required to be presented (see Agenda Paper 1B for further discussion) entities would not need to start preparing comparatives prior to the date of initial application, and a date of 1 January 2015 would be just over three years' lead time for the classification and measurement requirements, which is consistent with what commenters have said they would need.

12. The staff notes that in other phases of the project the Board may obtain further information on the lead time that would be necessary for entities to adopt the entire project as a package, and this may or may not allow entities to adopt IFRS 9 as a package on 1 January 2015. The staff also note that the Board may want

to consider if the project phases could have different mandatory effective dates if circumstances were to change. Therefore the staff would recommend that the Board consider these points when reviewing the mandatory effective date of IFRS 9 in this, and other phases of the project.

13. If the Board agrees with the staff's analysis, the staff believes that the Board should amend the effective date of IFRS 9 (2009) and IFRS 9 (2010) so that they will be required to be applied for annual periods beginning on or after 1 January 2015, subject to review in other phases of the project. Early application would continue to be permitted. The rationale for this decision, and discussion of factors that could affect it in future, would be in the Basis for Conclusions to IFRS 9.

Question 1 – Deferral of mandatory effective date
Does the Board agree with the staff recommendation in paragraph 8 that the mandatory effective date of IFRS 9 should be deferred?

Question 2 – Selection of mandatory effective date
Does the Board agree with the staff recommendation in paragraphs 10-13 that IFRS 9 should be required to be applied for annual periods beginning on or after 1 January 2015, subject to further review? If not, what would the Board prefer, and why?